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# Iraq's National Vision, Economic Strategy, and Policies; Strategic Insights, v. 5, issue 3 (March 2006)

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## Iraq's National Vision, Economic Strategy, and Policies

### *Strategic Insights*, Volume V, Issue 3 (March 2006)

by [Sabri Zire Al-Saadi](#)

*Strategic Insights* is a monthly electronic journal produced by the [Center for Contemporary Conflict](#) at the [Naval Postgraduate School](#) in Monterey, California. The views expressed here are those of the author(s) and do not necessarily represent the views of NPS, the Department of Defense, or the U.S. Government.

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### Introduction: The Vision

For centuries, Iraq has held a strategic geopolitical position in the Middle East region. Since the late nineteenth century, Iraq has attracted foreign interest in its oil wealth. Toward the future, Iraq's strategic importance will extend beyond the drive for the democratization and economic liberalization of the Middle East, as part of a wider movement for civil liberties within a globalization thrust.

Iraq also has the potential of being a successful economic model as well as a major energy supplier to the developed economies as well as the emerging giant Asian economies of China, India and South Korea.<sup>[1]</sup> At national level, the economic and social welfare of Iraqis will be substantially improved. At present, however, the perception is that the cost of losing the war against terrorism and failing in maintaining stability and nation-rebuilding would be devastating to the Iraqis, and the risk of neglecting Iraq would be tremendous for the region, and to the strategic interests of United States and its allies.

Since the fall of the former dictatorial regime on April 9, 2003, costly efforts have unfortunately failed to maintain security, revive the damaged economy, and improve the harsh living conditions. The accumulated effects of economic hardships and social misery have added to the widespread damage inflicted by vicious terrorist attacks, violence, crime, and corruption that impede economic improvement.

However, Iraqis have been and remain in acute anguish, and are hoping for a rapid improvement. The successful election on January 30, 2005, and the approval of a new constitution in a referendum by the majority of Iraqis, have sustained hope, but the subsequent political disarray, social disturbance, and continuous terrorist attacks, coupled with the country's economic mismanagement, have retarded the initiative for changing the prevailing depressed conditions.

Iraq's future success, nevertheless, depends not only on political and social stability, maintaining security, promoting democracy, economic liberalization, and the availability of oil wealth. Equally important, modern Iraq must have visionary, imaginative, inspiring, and accountable leaders; and governments and political parties that are able to design new national strategies, regulate the macro-economy, and efficiently implement a reconstruction program. Protection of non-renewable

resource—oil, gas, mineral resources, cultivatable land, human resources—and minimizing the social cost of their depletion should be seriously considered by the state as a necessary condition for economic growth, and sustainable development.

Especially essential, Iraq needs an indigenous, entrepreneurial private sector to contribute more to GDP and public finance. In this respect, a gradual but steady policy of compromise must be pursued to neutralize the political and financial power of oil revenues in domestic politics, and that requires intensive efforts for capacity building of government institutions.

In the short-run, an integrated public works program consisting of labor-intensive projects should be proposed by the federal government (FG) and the governorates, and implemented by private sector.

## A New Initiative

Since the collapse of the previous regime, it was clear that the terrorists' strategy has been to obstruct the establishment of a new democratic and secular state in Iraq through the destruction of infrastructure and public utilities, and by disrupting normal economic activities. It was also clear that there exist causal relationships between unemployment, poverty, deterioration of living standards, violence, and terrorist attacks. It was also obvious that the failure of economic policies and widespread corruption have contributed to the perpetuation of this harmful situation.

Despite the lack of public debate and transparency, one part of the virtuous efforts to break these vicious circles is to review and modify current economic policies. Unfortunately, neither the Iraqi government nor its U.S. ally has adopted appropriate economic strategies and policies for dealing with the prevailing acute problems. The government's "National Development Strategy of 2005-2007" (NDS), which was the product of long-term preparations and widely discussed by the IMF and World Bank experts,<sup>[2]</sup> did very little to improve the present policies made by the former Coalition Provisional Authority (CPA).<sup>[3]</sup> Although admitting the failure of U.S. economic strategy in Iraq, advocates have not been able to suggest a suitable alternative which recognizes the real driving factors behind the dynamics of Iraq's political economy and set the suitable conditions for economic revival.

Some U.S. advocates suggest that while "the United States will need to maintain its central role in rehabilitating the Iraqi economy," they identify unemployment as the most urgent problem. The remedy they proposed was to implement labor-intensive public works projects through Iraqi private sector and financed by the November 2003 \$18.4 billion U.S. grant to Iraq.<sup>[4]</sup> Contrary to the former U.S. economic policies in Iraq, this suggestion, though viable and necessary to alleviate the acute unemployment, reduces the requirements of Iraq's economic revival and reconstruction to only a public works program. In fact, an urgent public works program in the amount of \$2-3 billion has been suggested by the author since mid-2003 in order to tackle the unemployment problem, but was conditioned as part of a comprehensive reconstruction program and consistent with the required macroeconomic policies and structural reforms.<sup>[5]</sup>

Robert Looney, while admitting the failure of the neo-liberal/Washington Consensus free market development strategy in Iraq, raised his concern that "the danger today is that the current economic malaise will deteriorate to the point where the economy will stabilize in a poverty/violence trap." He has suggested "instead of the neo-liberal stress on liberalization, stabilization, and privatization, the evolutionary approach focuses on creating the institutional underpinning of markets needed to insure strong entrepreneurial development." He also proposed that "distributing a certain percentage of oil revenues to the Iraqi public through the creation of an oil fund would provide added demand for a wide range of domestic consumer goods. Part of this payment to Iraqis could be made conditional on participation in local clean-up programs while short-term training programs were providing the skills needed by private

companies."<sup>[6]</sup> Unfortunately, such propositions may not help to improve economic policy priorities. Even worse, some of the proposals have a demagogic nature such as cash distribution of oil revenues among citizens, while some practices lack transparency such as the "encrypted" monetary policy that hides behind the new law of the central bank.<sup>[7]</sup>

Significantly, the new U.S. initiative, the "National Strategy for Victory in Iraq"<sup>[8]</sup> of November 2005, has rightly and adequately determined six core assumptions:

1. Iraq has the potential to be prosperous and self-sustaining;
2. A free and prosperous Iraq is in the economic interest of everybody;
3. A growing economy will increase the economic welfare of Iraqis;
4. Economic change will be steady but gradual;
5. Iraq can be a reliable and contributing partner in the international community; and
6. Iraq will need financial support from the region and international community.

Also important, the new U.S. economic strategy in Iraq has identified some challenges that implicitly have more realistic expectations than the former CPA economic laws. These challenges are, increasing oil production, reconstruction of basic infrastructure, increasing electricity production, creating a banking infrastructure, balancing the need for economic reforms, encouraging local and regional capacity building, facilitating progress toward a market-oriented economy by reforming commercial laws, and encouraging many in the region and the international community to disburse their (financial) pledges.

While the identified challenges may be relevant to the overall U.S. strategy in Iraq, they may not help to tackle the real economic problems of the country, as they concentrate the solution on increasing oil production (revenues) and economic growth in terms of GDP. It is true that maximizing oil production is in the interest of Iraq at this stage, but this objective should be subject to many economic, social, political, and institutional conditions which have to be described as clear as the given strategic logic behind the economic track. The strategic assessment of economic progress centers on GDP estimates and growth. However, economic development and the living standards of Iraqis can not be judged at this stage by GDP and GDP per capita estimates simply because the value added by the oil sector is the main share of GDP, as well as the prevailing practical problems surrounding these estimates that reduce their reliability.

This paper is based on propositions that identify Iraq's strategic economic and political elements, macroeconomic policies, structural reforms, and the infrastructure's reconstruction priorities, which were put forward before and after the fall of Saddam's regime.<sup>[9]</sup> It restates and slightly modifies these proposals to consider the recent changes in the balance of political power and its likely implications as manifested by the importance of the general election and the approval of the new constitution. The latter significantly established the basic civil and political liberties, the federalist system with the decentralization of government decision-making processes, while failing to define clearly the crucial responsibility of the central government in designing oil wealth development strategy and policies, though it highlighted the necessity for close coordination with the FG and governorates.<sup>[10]</sup> The exclusive role of central government in utilizing oil revenues is vital for the economic revival of a unified Iraq.<sup>[11]</sup>

Institutionally, an indigenous non-political and independent entity, namely, the Iraqi Development and Reconstruction Council (IDRC), was suggested to assume the reconstruction tasks of nationwide infrastructure instead of the Development Fund for Iraq (DFI),<sup>[12]</sup> and to replace the rigid practices of the Ministry of Planning and Development Cooperation (MOPDC).<sup>[13]</sup>

The IDRC would facilitate the sharing of the benefits from oil revenues as recognized by the constitution. It would also encourage public-private participation and preserve mutual interests

and coordination with the concerned international parties, mainly USAID, the World Bank, the IMF, the UN, and donor countries. IDRC would also play a major role in the diffusion of modern technology and promote innovation capacities at project levels. It would consider the environmental dimension of the targeted economic growth, and social development—i.e. protecting non-renewable resources, especially oil, gas, and sulphur, as well as improving the skill and expertise of human resources.

The aim of this paper is to advance the national interest by addressing the economic problems that are not taken by the elected parties (government) or by the United States, which continues to play a pivotal political and economic role in Iraq.[14]

This initiative denies implicitly the suggestion that the lack of information and detailed statistical data disrupts the process of designing an adequate economic strategy for Iraq,[15] as well as lessening the use of economic freedom criteria as sufficient conditions for increasing economic growth.[16] Nor does it consider the stable foreign exchange rate of Iraqi dinar to the U.S. dollar as a genuine result of sound economic policy.[17] Instead, the given views put more emphasis on the nation's need for a formal future vision and institutional economic guidelines that would create confidence in government policies, and to influence positively the dynamics of Iraq's strategic factors: oil power, economic and social development, and democracy.[18]

Specifically, the purpose is two-fold:

1. First, to highlight Iraq's urgent demand for new, and inspiring, economic strategy and policies, as well as for identifying reconstruction priorities within a comprehensive plan.[19] Since Iraq will continue to face leadership and decision-making problems,[20] such an initiative is essential to restore public discipline and regain the authority and credibility that raises hope and maintains public interests.
2. Second, it argues against the call (imposed) for unconditional adoption of hasty ("shock therapy") economic liberalization.

## **Iraq's Economic Prospects**

The unique strategic advantages of Iraq—its geopolitical position in the Middle East and as a major world energy (oil & gas) supplier,[21] coupled with its human endowment—explains the foreign conflict of interests in the country and the need for a stable and prosperous Iraq. For Iraqis, both the immediate and longer-term task is to utilize its abundant human and natural resources for rebuilding its infrastructure and institutions, preserving political stability and security, sustaining social cohesion, increasing economic growth and employment, diminishing poverty, and raising the living standards.

The Iraqi economic experience during 1950s, 1960s and 1970s proved it has the capacity and political will for achieving higher economic growth and employment as well as for building public utilities and physical and social infrastructure. Indicators of GDP per capita, basic education, public health, social services, expansion of oil production capacities, industrial development (especially electricity and manufacturing industries), transportation, water resources development, irrigation, and flood control all support such positive assessment. However, the backward political agenda of Saddam's dictatorial regime and its misuse of oil revenues have caused a continuous deterioration of the economy since 1980.[22] In particular, the policy of utilization of oil revenues in building the infrastructure was very clear though not successfully implemented. However, compared with the post-war experience from April 2003 to 2005, it was better than current policies and practices.

Indeed, since the fall of Saddam's oppressive regime, the deteriorating economy, the damaged infrastructure, the shortage of public utilities and basic social services, have not been improving

as many had hoped and anticipated. In particular, high unemployment has not been alleviated.<sup>[23]</sup> Since the fall of Saddam's regime, actual oil revenues and government expenditures confirm the increasing reliance on oil revenues.

It was reported that the net proceeds from export sales of petroleum was valued at about US\$29.4 billion during the period (May 22, 2003 to June 30, 2005). It exceeded the total amount of US\$31.4 billion allocated to the annual budgets (expenditures) of Iraqi ministries, and constituted about 81.5 percent of total payments made by the DFI to cover the overall US\$30.0 billion expenditures for government operations and development costs in Iraq during the same period.<sup>[24]</sup>

Among many factors contributing to this failure, there were terrorist attacks, institutional collapses, corruption, and political uncertainties. However, the lack of economic outlook and inexperience of the political parties, and the apparent incompetence of the government officials as well as of the former CPA advisors, have substantially contributed to this situation.

Specifically, premature calls for economic liberalization, especially privatization of the oil industry, tight fiscal policy, and non-productive reconstruction and occupation expenditures, have damaged the then-strong drive for a free market and a bigger role of private sector. Economic and public finance mismanagement have indeed strengthened the tendency for more state economic intervention and increased corruption. Ironically, only foreign businesses and trade dealers in Iraq have flourished, benefiting from high government and occupation expenditures.

Obviously, economic revival continues to be one of the main challenges that face both elected and future governments. The radical political changes resulting from the election of January 30, 2005, and the approval of the new constitution with obscure oil and economic tasks of the central government, have renewed the impetus for reactivating the suggested economic remedies, as past experience has shown the lack of a proper economic plan.

Indeed, the authorities have failed in clarifying the ambiguity surrounding their radical free market policies. The best of post-war experience was to rely mainly on foreign consulting firms and international institutions that provided standard documents such as private banking laws, central banking laws, neat sheet presentation of annual budget items, and elegant sets of options for reform policies and the identification of infrastructure projects and their financial requirements. While technical assistance for economic governance has cost USAID only about \$183.0 million during FY 2003-2006, the efforts fell short with regard to coping with the harsh realities, and keeping up the minimum requirements for stimulating the economy.<sup>[25]</sup>

Significantly, without a clear economic strategy and policies that determine the allocations of oil revenues between the construction of infrastructure (investment) and the government's annual budgets, present efforts for redirecting public attention towards a promising role of the UN, World Bank, IMF, and the financial contribution of donor countries in the reconstruction of Iraq, would neither alleviate economic hardships nor establish a solid foundation for an efficient market economy and enterprise culture.

Except from the likely benefit of writing-off the non-commercial foreign debt,<sup>[26]</sup> such politically-oriented promises that lack public debate and serious involvement of native professionals would push out further the aim of creating a successful economic model in Iraq.

## **NDS Insufficiencies**

An analysis of Iraq's NDS ascertains that misconception still dominates the government's and U.S. economic policy in Iraq. NDS is basically an updating and a one-year extension of the previous three-year government's annual budget estimates (2004-2006) to cover the years 2005-2007.



Understandably, the new estimates were based on future oil revenues and government expenditures at the time of preparation. Total government expenditures were estimated at US\$36,842; \$40,511, and \$38,354 million for the years 2005, 2006, and 2007, respectively, and total revenues were estimated at US\$32,091, \$38,913, and \$38,890 million for the years 2005, 2006, and 2007—there would be deficits for the years 2005 and 2006, and a surplus for 2007. However, if we consider the anticipated revenues from foreign fund (loans and grants), which constitute 28.0 percent, 25.7 percent and 22.0 percent of total revenues in the years 2005, 2006, and 2007, then the real position of the annual budgets would be huge deficits.

Significantly, oil revenues were assumed to contribute 90.3 percent, 90.9 percent, and 91.6 percent of domestic revenues, whereas taxes were expected to add only 2.7 percent, 2.5 percent, and 2.4 percent in the years 2005, 2006, and 2007. Government investment expenditures were estimated at 16 percent, 16 percent, and 17.7 percent of total government expenditures in the years 2005, 2006, and 2007. Except for these rough estimates, the NDS lacks a consistent strategy and policies that consider the salient economic, social, and political features of the country. It only considers the availability of government financial resources, and the mere belief that the efficiency of market economy would be enough to deal with the existing problems—i.e., economic stagnation, diversification of economic activities, a small role for the private sector, and high unemployment and poverty.

Even its wishful short- and long-term targets reflect limited capacity and narrow prospects. NDS aims to reduce the unemployment rate from 43.8 percent in 2004 to 36.3 percent in 2007 and 21.9 percent in 2015. This is a clear indication of bad planning and inefficient use of public resources. In ten years, the outcome of such huge government expenditures would only reduce unemployment rate to 21.9 percent! What a hope! Poverty in terms of the proportion of the population earning under \$1 per day would decrease from 11 percent in 2003 to 8.73 percent in 2007 and 5.3 percent in 2015. However, poverty assessment may be misleading, as more reliable estimates of GDP per capita indicate that the poverty trap is spreading much more than the NDS suggests.<sup>[27]</sup>

Also, the proportion of the population with sustainable access to improved water would increase from 54 percent in 2004 to only 59 percent in 2007 and 75 percent in 2015. As for other quality of life indicators, the ratio of telephone line and cellular per 100 people would increase from 5.1 in 2004 to only 6.2 in 2007 and 10.2 in 2015. The NDS aims to increase personal computer use per 100 people from 3.6 in 2004 to only 4.3 and 7.2 in the years 2007 and 2015. These are not only very disappointing medium- and long-term targets, but also reflect the narrow vision behind these commitments.

As for GDP growth rate, which was estimated at 4.0 percent in 2005, 16.8 percent in 2006, and 13.6 percent in 2007, the oil sector that contributes between 66 percent to 70 percent of GDP will grow at 1.1 percent, 20.0 percent and 14.6 percent in the same years. Since no details were given on non-oil GDP, such aggregate estimations may disguise the real limited production capacities of non-oil sectors, especially the manufacturing industries, oil products, and agriculture.

It is clear that planners could not reconcile their ideological belief in free market forces as both a necessary and sufficient condition for economic growth and employment with the existing social and political conditions—e.g., the high unemployment, poverty, and the alarming problem of wide disparities in income and wealth which was missing in the NDS' fiscal policies.<sup>[28]</sup> In general, the NDS also failed to approach the solution of Iraqi economic and social problems within the concept of sustainable development—where the environmental elements, human, and natural non-renewable resources should be considered as important as economic growth.

The NDS adopted a fiscal policy that increases the economic dependence on foreign loans and grants. Since no concrete policy proposals were given to reduce the high dependence on oil revenues and foreign loans, the targeted over-expenditures would only deepen the structural

economic problems and corruption. With regard to sector priorities, it was difficult to evaluate them due to a lack of information, although common sense may reach a similar set of general priorities. However, assessed by the aim of the NDS strategy "to weave together macroeconomic and sectoral analyses and proposals into consistent policy fabric that will bring substantial benefits to all regions in Iraqi society," and the given sets of heterogeneous policies and measures included in the so called four pillars of the strategy—i.e., "strengthening the foundation of economic growth, revitalizing the private sector, improving the quality of life, and strengthening good governance and security",<sup>[29]</sup> then the NDS may be described as a pragmatic short-term fiscal policy for dealing with immediate financial needs of governments.

It is basically a declaration of annual budgets including an unrelated and untidy preamble that elaborates the same foundation pillars set up for Iraq by the former CPA, which are also the same four strategic areas of USAID mission activities in Iraq. Therefore, the same old criticism directed toward CPA policies is also valid for NDS.<sup>[30]</sup>

## **Crucial Transition of Economic Governance**

Iraq is at a crucial phase of economic governance, and if radical changes are not made immediately, then the country may deviate further from its previously anticipated high economic growth, rapid social development, and flourishing business environment.

The Islamic parties, with their vague and capricious economic views, dominate the country's mainstream politics, while the liberal democrat secular groups are losing their political and economic arguments. Also, the Kurdish nationalists/tribal traditional parties, the second most important political and social power, are trying to distinguish their own economic and financial interests—e.g., strong demand for separate share in oil and natural resources and local tax measures.<sup>[31]</sup> Such unconstructive political developments, coupled with widespread corruption, would further pressure the central government to depend more on oil revenues, and politically utilize them out of self-interest—and hence restrain the drive for democracy and entrepreneurialism. Such a situation may be aggravated by the likely (financial) dispute among the federal government and governorates that would further increase their dependence on oil revenues and foreign loans.

Politically, in addition to capable leadership and efficient, decentralized, institutional decision-making processes, Iraq needs a new political platform that appeals to the low-income groups, and helps to produce a growing middle class in terms of income, education, and entrepreneurial skill.

At this stage, it is therefore extremely essential for the liberal and social democratic political movements to build a social-political base by promoting a clear economic and social development agenda, where increasing employment opportunities and alleviating poverty are of first priority. At the higher level of decision-making authority, a careful compromise must be reached between high dependence on oil revenues, and the need to increase the contribution of the private sector to the GDP. This is the task of defining a long-term strategy, medium- and short-term policies, and prioritizing the reconstruction of infrastructure, guided by clear vision. Such a desired plan would also help to expose the terrorists and their non-democratic, false, and misleading claims, as well as to combat corruption.

## **Conclusions**

Iraq has the required human and natural resources to become a successful, democratic, and free market economic model in the Middle East. The failure of its current fiscal and monetary policies, economic reforms, and reconstruction of infrastructure necessitates a new initiative.



In addition to political stability and will, the government should have an inspiring future vision and well-defined strategy and policies, rather than old-fashioned practices or business-like management. The pace of the required economic liberalization, and increasing the contribution of the private sector to the GDP and public finance, will depend on the application of an initiative consisting of long-term economic strategy, medium-term structural economic reforms, and short-term fiscal and monetary stabilization policies—as well as the implementation of an integrated program for reconstruction of physical, social, and environmental infrastructure. The tasks of identifying and prioritizing the nation-wide physical and environmental infrastructure projects should be assigned to the indigenous IDRC as an independent state entity.

Such an initiative would help the capacity-building process of the government and market institutions, and also help maintain transparency and accountability, and combat corruption.

Politically, the prior commitment by the government, and the mainstream political parties, to such an initiative is essential to put the economy on the right track for alleviating unemployment, and improving the living standards in the medium- and short -run. It will also help to produce a middle-class as a main economic, social, and political driving force for development in the longer-run.

## About the Author

Sabri Zire Al-Saad is an economic adviser who has worked in a number of Arab countries as Chief Technical Advisor, Macroeconomist, and Investment Programmer, and has held senior economic planning and policy posts in Iraq. All given views are the sole responsibility of the author, and do not necessarily represent his employer's opinion or that of any Iraqi political entity. He may be reached by e-mail at: [sabri\\_saadi@hotmail.com](mailto:sabri_saadi@hotmail.com).

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9. See; Sabri Zire Al-Saadi, "The Iraqi Economic Crisis and Proposition for Change: An Introduction to the Political Economy Features; Oil, Development and Democracy," *The Iraqi File*, a monthly political and documentary review issued by The Iraqi Centre of Iraqi Studies, London, No. 107, November 2000; republished in *Althakafa Aljadida, the Iraqi Intellectuals Periodical Journal*, No. 297, December 2000. Also, "Economic Project For Change: Economic Policies and a Program of Action for the New Democratic Regime," unpublished paper presented to the Economy and Infrastructure Group, Future of Iraq Project, U.S. Department of State, October 23, 2002. Also by the author, "[Economic Liberalization and Oil Policy: Vision and Priorities](#)," *Middle East Economic Survey (MEES)* 45, No. 29, July 21, 2003; "[Iraq's Post-War Economy: A Critical Review](#)," *Middle East Economic Survey (MEES)* 47, 14, April 5, 2004; "The Iraqi Economy 2003-2004" (Arabic), published in *The Gulf Economic Report of 2003-2004* (Dar-Alkhaleej Publishers, Sharqa, United Arab Emirates: November 2003); and "Analytical Vision for Iraq's Economic Prospects," published in Ahmed Kawaz, ed., *Tasawarat Hawla Waqi Almustaqbal Aliqtisad Al Iraqi*, (Arabic) (Kuwait: Arab Planning Institute, March 2004).
10. Articles no. 107, 108, 109, and 110, "[Iraq's Constitution](#)," 2005. It should be noted that clarity of these four articles is needed, as for many articles of the constitution, to define precisely the role of the central government in utilization oil and gas wealth.
11. After the fall of Saddam's regime, I have highlighted such importance: "The political issue of the federal system proposed for Kurdistan has two main economic implications. The first is related to the state's sovereignty as concerns the ownership and utilization of the country's natural economic resources. These public resources such as crude oil and gas and minerals, water, land and the rent from the use of Iraqi space and related public utilities shall be public and all its returns belong to the state. The exploitation of these resources by other parties should be arranged on the basis of unified state laws and regulations to be applied in all parts of the country without prejudice based on geography, ethnic, sectarian or religious criteria. The second economic implication of the suggested federal political system is related to the conditions for effective macroeconomic regulatory policies. These should be undertaken and implemented by the central government without geographic and economic bias except for reducing the disparity in public wealth's distribution and development indicators when necessary." See, Sabri Zire Al-Saadi, "[The Economic Revival of Iraq](#)," *Middle East Economic Survey (MEES)* 46, No. 35, September 1, 2003.
12. The DFI was established by the UN-SC resolution 1483 dated May 21, 2003 and operates under the control of UN, IMF, WB, and Coalition forces, playing the role of treasury for both the government and the Central Bank of Iraq. Since the implementation of UN-SC resolution 1546 dated June 8, 2004, Iraq became a full member of the DFI board of directors. However, the Advisory and Monitoring Board for Iraq (IAMB) was established as an audit for the DFI, and aims to ensure that the DFI is used in a transparent manner for the benefit of the people of Iraq, and export sales of petroleum, petroleum products, and natural gas from Iraq are made consistent with prevailing international market best practices.
13. Sabri Zire Al-Saadi, "[Oil and Iraq's Economic Strategy](#)," *Middle East Economic Survey (MEES)* 48, No. 51, December 19, 2005.

14. "[Security, Reform, and Peace](#)," *Op. Cit.*
15. Robert Looney, "[Corruption's Reflection: Iraq's Shadow Economy](#)," *Strategic Insights* 4, No. 3, March 2005.
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17. See; Sabri Zire Al-Saadi, "[Oil Revenues and the Foreign Exchange Regime in Iraq](#)," *Op. Cit.*
18. No attempt was made at this stage to provide detailed proposals and institutional measures for the implementation of this initiative.
19. In reality, given the weak political foundations and incapable economic institutions, a non-government Iraqi-led professional team may undertake the initial phase of such a huge task.
20. Earlier, I have concluded that for effective and successful economic policy three important conditions have to be emphasized. "First, given concerted political efforts and effective leadership, the successful implementation of any new economic policies will need a qualified economic team to supervise, coordinate, and follow them up. Team members should have common objectives in strategy and policies, and full awareness of the policy implications;" "Second, the impact of any set of economic and fiscal and monetary policies will require frequent assessment. This means that good coordination and understanding must prevail among the ministries of finance, trade, and planning, and the CBI" and "Third, individual economic liberties can not be fully practiced, nor can constructive business be established or the private entrepreneurial sector allowed to flourish without institutional economic order, i.e. an overall strategy, economic objectives and policies, rule of law, institutional and administrative procedures, and a sound physical infrastructure." Sabri Zire Al-Saadi, "[Iraq's Post-War Economy: A Critical Review](#)," *Middle East Economic Survey (MEES)* 47, No. 14, April 5, 2004.
21. On the history of foreign interests in Iraq's oil and its impact on domestic economic, social, and political development, see Edith and E.R. Penrose, *IRAQ: International Relations and National Development* (Ernest Benn Ltd., 1978).
22. General assessment of the development planning and progress in Iraq during this period was given in Sabri Zire Al-Saadi, "[Oil and Iraq's Economic Strategy](#)," *Op. Cit.*
23. Such general evaluation of post-war experience is widely reported by almost all concerned parties, though with different reasoning and alternative suggestions. See Office of the Special Inspector General for Iraq Reconstruction, *Audit Report: Oversight of Funds Provided to Iraqi Ministries through the National Budget Process*, Report No. 05-004, January 30, 2005. The report stated "the CPA provided less than adequate controls for approximately \$8.8 billion in DFI funds provided to Iraqi Ministries through the national budget process. Specifically, the CPA did not establish or implement sufficient managerial, financial, and contractual controls to ensure DFI funds were used in transparent manner. Consequently, there was no assurance the funds were used for the purpose mandated by (UN-Security council) Resolution 1483." Also see: Robert Looney, "[A Return to Baathist Economics: Escaping Vicious Circles in Iraq](#)," *Strategic Insight* 3, No. 7, July 2004; Carl Conetta, "Radical Departure: Towards a Practical Peace in Iraq," *Project on Defense Alternatives, Briefing Report No. 16*, Commonwealth Institute, Cambridge, MA, July 7, 2004; Sabri Zire Al-Saadi, "[Iraq's Post-War Economy: A Critical Review](#)," *Middle East Economic Survey (MEES)* 46, No. 14, April 5, 2004.

24. [International Advisory and Management Board for Iraq](#); Development Fund for Iraq, Statements of Cash Receipts and Payments for the periods from May 22, 2003 to June 30, 2005.

25. USAID-Iraq, "[Reconstruction Weekly Update](#)," November 18, 2005.

26. Ironically, the IMF and WB were concerned to ensure their financial interests in Iraq while calling for Iraq's financial help. The Iraqi budget for 2004 allocated (under the DFI control) about \$453.3 million as IMF and WB arrears. Allocation for Kuwait war reparation was about \$708.78 million. See, Republic of Iraq, "Revision to 2004 Budget Ministerial Allocations," Ministry of Finance and Ministry of Planning and Development, March 2004, issued on April 10, 2004. War reparations for the years 2005-2007 were estimated at US\$1,040; \$1,314; and \$1,460 million respectively.

27. In the absence of reliable and published government estimates of GDP for the period before and after 2003, in our opinion the real poverty rates in Iraq in terms of per capita GDP are much higher. See Sabri Zire Al-Saadi, "[Oil Wealth and Poverty in Iraq: Statistical Adjustment of Government GDP Estimates \(1980-2002\)](#)," *Middle East Economic Survey (MEES)* 48, No. 16, April 18, 2005.

28. It is interesting to notice that while there is no multi-bracket tax policy considered by the NDS fiscal policy, the constitution clearly exempts low-income individuals from taxes.

29. *Ibid.*, ix.

30. Sabri Zire Al-Saadi, "[The Economic Revival of Iraq](#)," *Op. Cit.*

31. There has been agreement among the main political parties that the country's natural resources, especially oil, is a publicly owned and its utilization must be the responsibility of the central government. See CPA, "[Law of Administration for the State of Iraq for the Transitional Period](#)," March 8, 2004. The new constitution confirms such agreement.